

**CITY OF AIRWAY HEIGHTS**  
**Spokane County, Washington**  
**January 1, 1993 Through December 31, 1993**

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**Schedule Of Findings**

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1. The City Should Establish And Follow Proper Procedures To Ensure Compliance With Bid Laws

Our examination of the City of Airway Heights bid files showed numerous deficiencies with the bid files. We found the following:

- a. Bid specifications were too restrictive. During 1994, the previous city administrator wrote a detailed bid request for proposals (RFP) for the purchase for a four wheel drive pickup truck. These specifications required a 1993 model or newer, cloth seats, AM/FM system, less than 10,000 miles and five speed manual transmission. This request for proposals was published in the paper on April 10 and 17, 1994, as required by statute. On April 8, 1994, (two days prior to the first publication of the request for proposals) the city received a bid for a pickup truck matching these requirements from the previous city administrator. This pickup was ultimately purchased by the city for \$14,796.50.
- b. We reviewed six bid files and found all of the files reviewed lacked proper supporting documentation. The missing documentation included:
  - \* City council approvals to issue RFPs and awarding of bids.
  - \* Affidavit of Publications which provide evidence of publicizing the bid RFPs.
  - \* Evidence that all bids were reviewed and awarded to the lowest responsible bidder.

RCW 35.23.352 states in part:

(6) Any purchase of supplies, material, or equipment, except for public work or improvement, where the cost thereof exceeds seven thousand five hundred dollars shall be made upon call for bids.

(7) Bids shall be called annually and at a time and in the manner prescribed by ordinance for the publication in a newspaper of general circulation in the city or town of all notices or newspaper publications required by law. The contract shall be awarded to the lowest responsible bidder.

(8) For advertisement and formal sealed bidding to be dispensed with as to purchases between seven thousand five hundred and fifteen thousand

dollars, the council or commission must authorize by resolution, use of the uniform procedure provided in RCW 39.04.190.

RCW 39.04.190 states in part:

(2) At least twice a year, the municipality shall publish in a newspaper of general circulation within jurisdiction a notice of the existence of vendor lists and solicit the names of vendors for the lists. Municipalities shall by resolution establish a procedure for securing telephone or written quotations, or both, from at least three different vendors whenever possible to assure that a competitive price is established and for awarding the contracts for the purchase of any materials, equipment, supplies or services to the lowest responsible bidder as defined in RCW 43.19.1911.

As a result of not establishing written policies and procedures to ensure compliance with bid law requirements, the city has not complied with the applicable state statutes.

We recommend that city officials establish bid policies and procedures to ensure compliance with state statutes, which should include but not be limited to:

- a. Reasonable bid specifications which allow competition.
- b. Council approval of request for proposals by resolution.
- c. Council approval of awarding bid by resolution.
- d. Proper supporting documentation in bid files.

2. The City Should Improve Internal Control Procedures Over The Payroll System

Our examination of the City of Airway Heights' payroll system disclosed deficiencies in internal controls and accounting procedures. The following weaknesses were noted:

- a. Payroll expenditures were not properly supported with authorized time sheets.
- b. Employees were not paid according to their authorized salary schedule. New employees were paid \$100 less a month than the authorized salary schedule until they work one full year. The city's personnel policy did not support this practice.
- c. Payroll salary paid to three individuals did not agree with the authorized salary ordinance.
- d. Payroll time sheets were changed without proper authorization from the employee.

RCW 43.09.200 states in part:

The accounts shall show the . . . documents kept or required to be kept, necessary to isolate and prove the validity of every transaction . . . .

Volume 1, Part 3, Chapter 1, pages 15 and 17-18 of the *Budgeting, Accounting and Reporting System* (BARS) manual, issued by the State Auditor's Office pursuant to RCW 43.09.230, requires the following for entity internal control systems:

An internal control system consists of the plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports . . . .

Internal control systems and all transactions and other significant events are to be clearly documented, and the documentation is to be readily available for examination . . . .

Internal control weaknesses, such as described, and the lack of accounting policies and procedures do not provide adequate protection of public assets. Weak internal controls increase the potential for the occurrence of fraud and undetected accounting errors.

City officials were unaware of the internal control weaknesses.

We recommend that management establish and implement internal controls and accounting procedures. These controls and procedures should include but not be limited to:

- a. Payroll expenditures should be supported with properly authorized timesheets. The timesheets should be certified by employee and supervisor.
- b. Individuals should be paid according to the authorized salary ordinance.
- c. Payroll changes should be initialed by employee authorizing changes in hours.

3. The City Should Strengthen Procedures Over The Purchasing System

Our examination of the City of Airway Heights' purchasing system disclosed deficiencies in internal controls and accounting procedures. The following weaknesses were noted:

- a. There was not adequate documentation to support the public purpose of expenditures. We tested 26 vouchers, nine of which did not have any documentation (original invoices, receiving reports, etc.).
- b. Expenditures were not reviewed and certified by an auditing officer.
- c. The city council approved warrant register did not agree with the actual warrant issued. We found one warrant issued for \$133.92, but the council approved its issuance for \$75.60. Two warrants were issued with the payee changed and these payees did not agree to the approved warrant register.

RCW 43.09.200 states in part:

The accounts shall show the . . . documents kept or required to be kept, necessary to isolate and prove the validity of every transaction . . . .

RCW 42.24.080 states in part:

All claims presented against any county, city, district or other municipal corporation or political subdivision by persons furnishing materials, rendering services or performing labor, or for any other contractual purpose, shall be audited, before payment, by an auditing officer elected or appointed pursuant to statute or, in the absence of statute, an appropriate charter provision, ordinance or resolution of the municipal corporation . . . .

Internal control weaknesses, such as described, and the lack of accounting policies and procedures do not provide adequate protection of public assets. Weak internal controls increase the potential for the occurrence of fraud and undetected accounting errors.

City officials were unaware of the internal control weaknesses.

We recommend management establish and implement internal controls and accounting procedures to strengthen their purchasing system. These controls and procedures should include but are not limited to:

- a. Original invoices are used to process payments and support the public purpose of all expenditures.
- b. Expenditures are reviewed and certified by an auditing officer.
- c. Warrants issued agree to the approved warrant register. Warrants are not erased or changed and if an error occurs, the transaction is voided and the warrant is reissued.

4. The City Should Improve Internal Control Procedures Over Cash Handling

Our audit of the city disclosed numerous deficiencies in the cash handling procedures. The following weaknesses were noted:

Municipal Court

- a. Court funds are held and deposited only once a week.
- b. There was no separation of duties between the access to assets and control over the related accounting records. The court clerk performed the following functions:
  - (1) Receipted cash and made all deposits.
  - (2) Wrote checks on the court trust bank account and reconciled the bank statement to the check register.
  - (3) Reconciled the court trust bank account and trust ledger to each other.
  - (4) Set up time pay accounts receivable subsidiary ledgers and posted payments.
- c. Court funds are commingled with trust account funds in one checking account. Court funds are not integrated with the city's accounting records.
- d. There is no control account established over court receivables.

Finance Department

- a. Funds are not deposited in a timely manner.
- b. Cash and check composition is not clearly and consistently identified.

RCW 43.09.240 states in part:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the taxing district once every twenty-four consecutive hours.

Internal control weaknesses and a lack of accounting policies and procedures does not provide adequate protection of public assets. Weak internal controls increase the potential for the occurrence of fraud and undetected accounting errors.

The city management did not understand the necessity of proper cash handling procedures.

We recommend that the city strengthen controls by:

- a. Segregating the duties between cash handling and accounting for cash.
- b. Depositing all public funds intact within twenty four hours of receipt.
- c. Separating the court trust account funds from the fines and fees collected.

5. The City Should Not Give Retroactive Pay Increases To City Employees

On December 19, 1994, city council approved a three percent retroactive pay for all city employees. Payroll checks, representing the pay raise, were issued and paid to employees on December 20, 1994.

Washington State Constitution, Article 11, Section 25, states:

Extra Compensation Prohibited. The legislature shall never grant any extra compensation to any public officer, agent, employee, servant, or contractor, after the services shall have been rendered, or the contract entered into . . . .

The city spent more than \$16,000 inappropriately by granting extra compensation to city employees after services had been rendered.

The city's management was reportedly misinformed regarding the legality of providing retroactive pay.

We recommend the city comply with the state laws governing retroactive pay increases.

6. City Funds Must Be Properly Accounted For To Ensure Compliance With The Laws Governing The Receipt And Expenditure Of Public Funds

Fire department personnel failed to properly account for city moneys by allowing funds to be controlled by the Airway Heights Volunteer Fire Department (AHVFD), which claimed to be a private nonprofit organization registered in the state of Washington. The city gave AHVFD \$10,000 in 1994 to perform fire suppression duties without a contract to detail the types of services to be provided. AHVFD was allowed to control these funds by processing all revenues and expenditures through its bank account rather than through the city's accounting system. By allowing AHVFD to process these funds, we were unable to substantiate the public purpose of all expenditures.

The distinction made between AHVFD and the city fire department, for public appearances, was minimal. We were unable to determine if individuals making donations and fund-raising contributions fully understood the distinction between the organization and the fire department. Further, we have been provided with no documentation regarding the intent of each donor relating to each donation, nor does it appear that AHVFD has maintained such records to support its claim to the funds. In light of the confusion created by this situation and the lack of documentation to the contrary, the money given to city fire department employees and officials, money receipted by city fire department employees and officials on city time, and checks made out to "Airway Heights Volunteer Fire Department" represent city funds. Since these funds were processed through AHVFD bank accounts rather than through the city's accounting system, the city did not comply with the laws governing the receipt and expenditure of public funds.

RCW 35.24.140 states:

Every officer collecting or receiving any money belonging to or for the use of the city shall settle with the clerk and immediately pay into the treasury on the order of the clerk to be credited to the fund to which it belongs.

RCW 43.09.200 states in part:

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

As a result of the AHVFD city funds being processed through AHVFD accounts rather than through the city's accounting system, the city did not comply with the laws governing the receipt and expenditure of public funds.

Fire department personnel and AHVFD members did not follow applicable laws governing

public funds.

We recommend the City of Airway Heights:

- a. Authorize a special revenue fund to account for all revenue and expenditure transactions for donated fire department funds.
- b. Process all revenue and expenditure transactions of special revenue funds through the city's accounting system.
- c. Establish policies and procedures for all operations of the fire department.



7. The City Should Charge The Proper Building Permit Fees

During our audit of the city, it was brought to our attention that the building permit fees were not properly calculated. This resulted in improper billing of fees for these permits. The city issued 66 permits for the year ending December 1993 and collected revenues of \$12,431. Of the 66 permits reviewed, 33 were incorrectly charged for a total loss of revenues to the city equaling \$7,360.75. The city under billed 30 permits for a total \$7,702.25 and over billed 3 permits for a total of \$341.50. One contractor, alone, was under billed \$4,092.76 for 3 permits.

Title 15 of the City of Airway Heights Municipal Code adopted the state building code. The state building code details the appropriate fees to be charged for building permits.

By failing to ensure that the charges were appropriate for building permit fees the city lost \$7,360.75 of revenue.

The city's management did not have an adequate system to ensure that the required building permit fees were charged.

We recommend that the city's management implement controls over the building permit billing process and have the city's legal counsel make a determination as to the collectibility of the lost revenue.